

PUBLIC DISCLOSURE

October 9, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Electronic Bank
Certificate Number 35533**

**280 West 10200 South, Suite 200
Sandy, Utah 84020**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square
San Francisco, California 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **First Electronic Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 9, 2007**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated: **SATISFACTORY**

First Electronic Bank's CRA performance depicts an overall Satisfactory practice of providing for the credit needs of its designated assessment area in a manner consistent with its product lines, resources, and capabilities. The following factors support this rating:

- The bank's qualified investment activity, which totals **\$725,000**, is the bank's primary method of meeting its CRA responsibility. The investments target low- and moderate-income individuals and geographies, affordable housing, and financing of start-up businesses owned by minority groups. The bank's level of investments during this evaluation's review period represents adequate responsiveness to community development needs.
- The bank's **466 hours** of cumulative, qualified community development service activities, represents adequate responsiveness to community development needs.

SCOPE OF EXAMINATION

First Electronic Bank meets the definition of a Small Bank under the CRA regulation. However, because the bank is a national lender with only a small number (negligible by percentage) of its loans within the assessment area, the bank was evaluated predominantly on its level of qualified community development investments and services.

This evaluation reflects the bank's CRA performance since its last CRA public evaluation of **September 30, 2002**. The evaluation was conducted at the institution's headquarters in Draper, Utah, relying on the records and reports provided by the bank and those publicly available. The loan and financial information, demographic data, community contact information, and other information gathered as part of the examination process were also utilized.

DESCRIPTION OF INSTITUTION

First Electronic Bank, a 99.89 percent owned subsidiary of Fry's Electronics, Inc. (the "Parent"), was formed for the primary purpose of issuing general purpose lines of credit, to be accessed by a number of devices including credit cards, to consumers and commercial enterprises. The lines of credit can be used for the purpose of purchasing merchandise, repair services, and service contracts at the Parent's retail stores. For consumers who request it and are qualified, the credit card can provide cash advances at any automated teller machine in the Plus System network.

First Electronic Bank operates from a single office location in Draper, Utah. Deposits are comprised of the Parent company funds; certificates of deposit solicited from Fry's customers; and brokered deposits.

The Parent is a California corporation and a retailer of electronic, computer, and other consumer merchandise. It presently operates 34 Fry's Electronic retail stores located within the following 9 states: California, Texas, Arizona, Oregon, Nevada, Washington, Illinois, Indiana, and Georgia.

As of June 30, 2007, the Consolidated Report of Condition (Call Report) reflects \$14 million in total assets with total loans of \$8,000. First Electronic Bank's portfolio of private label Fry's Electronic store credit cards are maintained off the balance sheet, until the credit card receivables are sold to the Parent (without recourse) the following day. The bank presently carries on its books 1 loan with a balance of \$8,000 that was originated over 5 years ago to a non-profit community development enterprise. The table that follows (Table 1) reflects the composition of the institution's loan portfolio as of June 30, 2007.

Table 1- First Electronic Bank Loan Portfolio		
Type of Loan	Amount (\$000's)	Percentage (%)
Commercial/Industrial	8	100
GROSS LOANS	8	100
LESS: Unearned Income	(0)	(0)
TOTAL NET LOANS	8	100

Source: Report of Income and Condition as of June 30, 2007.

DESCRIPTION OF ASSESSMENT AREA

First Electronic Bank has defined its assessment area as Salt Lake County, Utah. This is an area comprised of 193 contiguous census tracts. The Department of Housing and Urban Development (HUD) estimates the 2007 median family income (MFI) for the Metropolitan Statistical Area (MSA) at \$60,100. The bank's assessment area is home to most of the major insured financial institutions in the state, including several regional banks, several credit unions, and many other industrial loan companies. Table 2 reflects the geographic distribution of Salt

Lake County's 193 census tracts, population, and other selected demographics as determined by the 2000 U.S. Census.

Table 2 – Demographic Information for Salt Lake County

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)*	193	2.59	22.28	46.63	28.50
Population by Geography*	898,387	0.85	23.55	48.82	26.78
Owner-Occupied Housing by Geography*	310,988	0.21	17.40	51.86	30.53
Business by Geography – 2006**	89,860	8.56	22.71	40.18	28.56
Family Distribution by Income Level*	215,864	0.69	21.66	49.99	27.67
Distribution of Low and Moderate Income Families throughout AA Geographies*	79,691	1.56	35.80	49.27	13.37
2007 HUD Updated MSA MFI**		60,100			
Percentage of Households (HH) Below Poverty Level*		7.71%			

Source: *2000 US Census, **2006 Dun & Bradstreet (D&B) Business Data, and ***2007 HUD Updated Median Family Income

According to the Salt Lake County Governor's office for planning, Salt Lake County is the most populous county in the State of Utah, with an estimated population of 996,374 for 2006. Salt Lake County had the second highest population increase in the state with 18,089. The county's average annual growth rate from 2005 to 2006 has been 1.8 percent, below the state average of 2.4 percent. Salt Lake County's average household size is 2.9 people per household compared to the state average of 3.07 people per household (Census estimates 2005).

Community Contacts

Numerous community contacts that were completed during 2007 were reviewed in conjunction with this evaluation. The contacts revealed a strong ongoing need for affordable housing, including multi-family housing as well as single family residences. Other needs identified include: credit, homebuyer, pre-purchase counseling, and other related financial education training targeting adults as well as student-age children. In addition, community contacts expressed a need for economic development in areas identified by various governments for rehabilitation. These needs include: healthcare for low- and moderate-income families and individuals; and childcare for low- and moderate- income families during the workday, including after-school programs for "at-risk" youth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending in the Assessment Area

First Electronic Bank originated a limited number of loans within its defined assessment area compared to its nationwide portfolio. Table 3 summarizes the bank's credit card lending activity inside and outside the Salt Lake County assessment area for the years 2004, 2005, 2006, through October 2007.

Table 3 – Distribution of Credit Card Loans Inside and Outside the Salt Lake County Assessment Area										
YEAR	Number of Loans					Dollar Volume of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total \$ (000's)
	#	%	#	%		\$ (000's)	%	\$ (000's)	%	
2004	3	.01%	55,519	99.99%	55,522	\$ 0	0%	\$ 0	0%	\$ 0
2005	32	.04%	79,158	99.96%	79,190	\$112,580	.04%	\$260,495, 650	99.96%	\$260,608,230
2006	30	.04%	68,631	99.96%	68,661	\$129,460	.05%	\$244,005,910	99.95%	\$244,135,370
October 2007	16	.03%	45,855	99.97%	45,871	\$ 49,800	.04%	\$139,744,400	99.96%	\$139,794,200
Totals	81	.03%	249,163	99.97%	249,244	\$291,840	.05%	\$644,245,960	99.95%	\$644,537,800

Source: Bank records. Note: The bank does not have data covering the years prior to 2004.

As illustrated in Table 3, 81 (or .03 percent) of the total 249,163 credit card loans for the years 2004 through year-to-date 2007 were originated within the assessment area. By dollar amount, less than \$292,000 (or .05 percent) of the nearly \$645 billion of credit card loans were originated within the assessment area. This low level of lending in the assessment area is attributed to the lack of Fry's Electronic Stores, where the private label credit cards are marketed and used, anywhere in the State of Utah.

The bank has no plans to be a stand alone entity or to establish a Fry's Electronic Store in the State of Utah, although it is presently expanding its credit card operations to double in size to service the nationwide private label credit card program. Based on the bank's nationwide lending perspective, and nominal lending activity within the bank's assessment area, little weight is given to the analysis of the bank's lending distribution in determining the bank's overall CRA performance rating.

Geographic and Borrower Distribution of Loans within the Assessment Area

From June through December 2007, the bank originated 31,801 credit card loans totaling \$96,731,400. Additional analysis of these loans revealed that only 2 loans totaling \$6,500 were originated within the bank's Salt Lake County assessment area. Due to the small number of loans originated within the assessment area, further analysis of the bank's loan distribution does not offer meaningful information in determining the bank's overall CRA performance rating.

Loan-to-Deposit Ratio

Table 4 represents First Electronic Bank's average loan-to-deposit ratio over the past 19 quarters since the bank's previous CRA public evaluation of September 30, 2002. The bank's average net loan-to-deposit ratio is .25 percent. The bank's deposits are obtained primarily from the Parent through third-party deposit broker relationships. The bank does not have a retail branch network to obtain deposits from within its assessment area. As such, little weight is given to the analysis of the loan-to-deposit ratio in the determination of the bank's overall CRA performance rating.

Table – 4 First Electronic Bank’s Average Loan-to-Deposit Ratio (LTD) over the past 19 quarters			
Call Report Date	Ratio	Call Report Date	Ratio
06/30/2007	0.10%	12/31/2004	0.40%
03/31/2007	0.08%	09/30/2004	0.46%
12/31/2006	0.10%	06/30/2004	0.50%
09/30/2006	0.12%	03/31/2004	0.71%
06/30/2006	0.10%	12/31/2003	1.06%
03/31/2006	0.10%	09/30/2003	0.00%
12/31/2005	0.13%	06/30/2003	0.00%
09/30/2005	0.32%	03/31/2003	0.00%
06/30/2005	0.34%	12/31/2002	0.00%
03/31/2005	0.36%	Average	0.25%

Source: Quarterly Reports of Income and Condition

Response to Complaints

No comments or complaints were received by the bank regarding its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

A substantive violation of Section 5 of the Federal Trade Commission Act regarding Unfair and Deceptive Acts or Practices was identified. The violation resulted from the bank’s failure to properly disclose to consumers how to avoid deferred interest charges under the bank’s promotion plan. The failure to include all of the information necessary to satisfy the deferred interest requirements is material and likely to mislead a reasonable customer. The bank revised all information in the promotion plan and now correctly advises consumers how to avoid the deferred interest. The violation did not result in a lowering of the bank’s CRA rating.

Community Development Activities

First Electronic Bank has an adequate level of community development services and qualified investments and grants.

Qualified Investments and Grants

First Electronic Bank has extended an adequate level of qualified investments and grants to help meet its assessment area’s community development needs. The bank’s qualified investments and grants include investments totaling \$50,000 in an affordable housing mortgage-backed security, a \$675,000 investment in a micro-enterprise loan fund, and a \$500 donation to a nationwide affordable home ownership program. The following table (Table 5) provides a summary of the bank’s qualified investments and grants, which totals \$725,500.

Table 5 – Qualified Investments and Grants		
Mortgage Backed Security Investment Company Name	Description and Purpose of Investment	Purchase (Par Value) Price for CRA Credit
UHFC – Utah Housing Finance Corporation	The bank's recurring investments to the UHFC supports an affordable housing initiative also known as the <u>First Home Program</u> , which offers lower interest rate mortgages to low- and moderate-income first time home buyers. The bank's investments are geographically targeted to support low- and moderate-income borrowers within Salt Lake County.	\$ 50,000
UMLF - Utah Micro-enterprise Loan Fund	This investment supports small start-up and existing minority owned businesses in low- and moderate-income geographies in Utah, which do not have readily available access to traditional funding resources.	\$675,000
Donation for affordable home ownership	This donation was to a non-profit nationwide organization with a chapter in Salt Lake County that helps in the overall effort to provide affordable home ownership to low- and moderate-income individuals.	\$500
Total Qualified Investments and Grants		\$725,500

Source: Examiner prepared table

Community Development Services

First Electronic Bank's employees, officers, and Board members have provided an adequate level of community development services, lending their financial expertise to several organizations that serve the educational and other community development needs of low- and moderate-income individuals in Salt Lake County.

The following table (Table 6) represents the bank's community development service activities since the prior evaluation.

Table 6 - Community Development Services		
Employee Capacity	Community Entity/Purpose and/or Mission	Hours of Service
Board Member	A non-profit West Jordan organization that helps low- and moderate-income families deal with "at risk" teens. The organization provides therapeutic mental treatment through live counseling sessions, provided by volunteer home parents and professionals.	270 Hours
Reading Volunteer	A non-profit national program with a chapter in Salt Lake County that promotes school readiness to children of all racial/ethnic groups and children with disabilities. The program predominantly services economically disadvantaged children and families, with special needs, particularly focusing efforts in helping preschoolers develop the early reading and math skills they need to be successful in school.	24 Hours
Board Member	A non-profit national program with a chapter in Salt Lake County whose mission is to operate programs in the area of homeless outreach, senior services, substance abuse detoxification, and treatment. The program fosters self-sufficiency and provides opportunities for volunteer involvement.	48 Hours
Board Member	A local Salt Lake County non-profit organization that provides mental health services that promote the emotional well-being and growth of individuals that may be experiencing problems due to mental illness and/or substance abuse, most of who are of low or moderate income. The program targets adults who are seriously and persistently mentally ill, and children who are seriously disturbed. Other wrap-around services include daily living skill training, employment training, housing opportunities, and money management education.	30 Hours
Instructors	A united non-profit organization initiative that provides financial education to school age children. Bank employees and officers provided 34 instruction hours plus 60 hours of preparation and travel time.	94 Hours
Total Hours of Community Development Service		466 Hours

Source: Examiner prepared table